

Annex 3

# PARTNERSHIP FOR GROWTH

Ghana – United States

**2013 Access to Credit**

Annual Scorecard

**MARCH, 2014**



Ghana

2013-2018



# PARTNERSHIP FOR GROWTH

Ghana – United States

Annual Scorecard

2013

## Overview

Constraint 1: Unreliable and inadequate supply of electric power		Score 31/12/2013
Goal 1. Policy, Strategy, and Planning <i>Development of energy sector plans, policies, and strategies to improve private investment in the power sector and develop a transparent framework for natural gas resources</i>		[Insert Color and Rating]
Goal 2: Institutional, Regulatory and Structural Reform <i>Strengthen institutional, regulatory and structural reform to enhance the financial viability, operational efficiency, and sustainability of power sector utilities</i>		[Insert Color and Rating]
Goal 3: Electricity Demand and Generation Capacity <i>Improve energy security and growth through expansion and diversification of supply to include gas and renewable energy</i>		[Insert Color and Rating]
Goal 4: Transmission and Distribution Infrastructure and Operations <i>Improve utilities' performance and infrastructure, reliability of supply, and ability to support demand growth</i>		[Insert Color and Rating]
Goal 5: Rural Access <i>Improve rural access to power and effective management thereof</i>		[Insert Color and Rating]
Constraint 2: Lack of Access to Credit		
Goal 1. Reduce Government Engagement in the Banking Sector		
Goal 2. Strengthen Financial Sector Regulation and Supervision within Financial Sector		
Goal 3. Develop the Financial Sector Infrastructure		
Goal 4. Broaden and Deepen the Financial Sector		
Goal 5. Encourage development finance and support SME Access to finance		

Score			

Behind Schedule	On Track	Ahead of schedule	Completed
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## **Introduction**

*Partnership for Growth (PFG) is a partnership between the United States Government (USG) and a select group of countries to accelerate and sustain broad based economic growth through engagement with governments, the private sector, and civil society. It seeks to replace the traditional donor-recipient model of international development assistance with a partnership based on mutually-agreed upon actions and commitments. Ghana is one of four PFG countries in the world selected for the PFG program. The others are Philippines, El Salvador and Tanzania.*

*The U.S.-Ghana PFG Statement of Principles which was signed on March 1, 2013 aims to rapidly expand broad-based, inclusive economic growth in Ghana under an overarching commitment to democracy, sustainable development, and human rights through a series of coordinated actions over a five-year period commencing 2013 to 2018. The coordinated action plan will be implemented under a Joint Country Action Plan (JCAP) that identified two binding constraints to economic growth in Ghana: unreliable and inadequate supply of power, and lack of access to credit. To address these constraints, the JCAP contains ten goals, and within each goal are specific sub-goals and lines of action. Each government has identified implementation teams that meet regularly to develop strategies, identify challenges and opportunities, exchange information, and address other relevant operational considerations. The JCAP remains flexible and will be reviewed annually in order to make course corrections and adjustments for subsequent implementation, as agreed to by the Government of Ghana (GOG) and the USG.*

*The JCAP includes a rigorous Monitoring and Evaluation process. This process is meant to evaluate progress on each constraint to growth, as well as the PFG effort as a whole, and includes the following activities: semi-annual performance reporting that is public and based on chosen indicators and benchmarks; an annual high-level bilateral review that is accompanied by a public forum, and a rigorous mid-term and final implementation evaluation conducted by a third-party.*

*The attached report is the 2013 scorecards designed to report to the public on goal-level progress of the Partnership for Growth. It reports on both existing programs of cooperation of the United States and in Ghana as well as on new initiatives. The descriptors "Ahead of Schedule," "On Track," "Behind Schedule," or "Completed," will be used in the reports to characterize progress made toward meeting each goal and a narrative justifying the score assigned will accompany each goal. The narrative is not intended to examine all actions taken under each goal, but to identify actions, events, and developments that helped determine the score. One or more performance indicators have been chosen as the principle, but not the exclusive basis for evaluating progress on each goal. Other factors, consistent with an evaluation of progress made toward completing the objectives, may be considered in each evaluation. **Definitions and details on the indicators chosen can be found on M&E Addendum to the JCAP.** There will be series of semi-annual scorecards over the rest of the JCAP period ie., 2014 to 2018.*

*Several goals have performance indicators tied to measurement of public perceptions or impacts on the private sector and citizens. The U.S. and GOG are currently finalizing the mechanisms to capture the public and private perception and impact data required to begin a baseline analysis, and the governments expect this data to be included in subsequent scorecards.*

*Partnership for Growth is a new experience for both governments through which the foundation for proper coordination and project implementation is being jointly established. The M & E addendum is consistent with the work plans for each line of action. The success of PFG will be determined by the extent to which it promotes broad-based private sector-led economic growth in Ghana through the actions outlined in the JCAP.*

MACRO CONSTRAINT Lack of Access to Credit	
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#### Key Indicators

- Firms citing credit as a constraint to business (C1)<sup>1</sup>
- Private sector lending to as a percentage of GDP (C2A-B)
- Real interest rates (C3)
- Interest rate spread (C4)
- Average tenor of term loans (C5)

## Overview of Ghana's Economic Situation

*The latest IMF World Economic Outlook (WEO) indicated that global growth is expected to increase in 2014 to an average of 3.7 percent, up from 3 percent in 2013. However, the new developments in emerging markets have raised concerns about contagion risks which could impact on commodity markets as well as prospects for global growth.*

*The commodity markets have also been affected by the developments in the US economy and other advanced countries. Gold prices are projected at \$1,292 an ounce in 2014 lower than the \$1,411 an ounce in 2013. Brent crude oil prices are also expected to average about \$104 in 2014, down from the 2013 average of \$108.4 per barrel. Cocoa prices could pick up in 2014 after the decline in most of 2013. These developments have significant implications for the domestic economy.*

*The domestic economy continued to experience fiscal pressures, exchange rate depreciation and cost-push effects from higher petroleum and utility prices. Inflation expectations have heightened and headline inflation ended 2013 at 13.5 percent, above the target band of 9±2 percent.*

*Fiscal consolidation for 2013 was slower than anticipated. The overall budget deficit was provisionally estimated at 10.8 percent of GDP against a target of 9.0 percent, following a deficit of 11.8 percent in 2012. Expenditures were broadly on target; however revenues were significantly below target, resulting in the fiscal slippages. The fiscal imbalances and the external pressures resulted in a current account deficit of 12.3 percent of GDP up from 12.1 percent in 2012. This was on account of a worsened terms of trade, and a significant decline in net current transfer receipts. In particular, individual remittances declined by 4.3 per cent year-on-year to US\$1.7 billion.*

<sup>1</sup> World Bank Doing Business or PFG survey

*Cocoa and gold export receipts declined by \$1.3 billion in the year. The overall balance of payments deficit of \$1.2 billion thus remained the same as in 2012. Gross international reserves as at the end of 2013 amounted to US\$5.6 billion (3.1 months of imports) compared with US\$5.3 billion (3 months of imports) at the end of 2012.*

*Monetary growth as well as credit to the private sector generally moderated in the review year. In spite of attractive yields on the money market, the Ghana Stock Exchange Composite Index (GSE-CI) posted a strong cumulative growth of 78.8 per cent compared to a growth of 23.8 per cent at the end of 2012. Market capitalization also appreciated by 6.8 per cent mainly as a result of appreciation in some equities on the exchange during the period.*

*These developments in the fiscal and external sector together with the global pressures resulted in a depreciation of the Cedi by 14.6 percent against the US Dollar in 2013 compared to 17.5 percent in 2012. However, we have observed a much faster pace of depreciation since end-December 2013. As at end January 2014, the Cedi had depreciated by 7.8 percent against the US Dollar compared to 0.2 percent in the corresponding period in 2013.*

#### *Outlook & Strategic Measures*

*The uncertainties in the outlook and weakened domestic fundamentals underscore the need for continued tight fiscal and monetary policies and measures that would reduce the country's vulnerability to shocks, re-anchor inflation expectations and sustain macroeconomic stability.*

*To support the monetary policy measures and to ensure transparency, streamline activity and reduce leakages in the foreign exchange markets, address anti-money laundering issues and promote the use of the Cedi as the sole legal tender, Bank of Ghana issued new set of foreign exchange regulations and code of conduct in February 2014 to guide operations in the foreign exchange market. These include:*

- Revisions on the rules for operation of foreign exchange*
- Foreign currency accounts;*
- Restrictions on foreign currency denominated loans;*
- Repatriation of export proceeds;*
- Margin accounts for import bills; and*
- Revised operating procedures for forex bureaux.*

*The on-going reforms to improve revenue mobilization whilst containing expenditures and the rationalization of the high wage bill will re-enforce the new BOG regulations for the attainment of economic objectives set in 2014.*

<b>Goal 1. Reduce Government Engagement in the Banking Sector</b>	
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#### Key Indicators

- Government deficit (C6)
- Government within statutory borrowing limits (C7)
- Public sector borrowing from the banking sector (C8A-C)
- Value and ratio of public sector arrears as a percentage of expenditures (C9A-B)
- Percentage of non-performing loans at banks (C10)

*Though we did not meet the 2013 targets set, there are however reductions such as 2012 baseline budget deficit of 12% to 10.8% of GDP and government deficit financing by banks from 9.8% to 8.1%. The banking sector lending to public institutions also reduced significantly both in absolute terms and as percentage of total credit. Some measures being taken by government are the divesture of Agricultural Development Bank, ongoing work on the amendment of the Financial Administration Act, the LI and GIFMIS.*

*To address the budget deficit, in the short to medium term, government is taking measures to broaden the tax base further, diversify and broaden the export base, reduce imports especially of consumption goods that have local substitutes, and intensify efforts to block foreign exchange leakages, such as transfer pricing.*

*Furthermore, short to medium term measures as highlighted in the 2014 Budget and Economic Policy of Government of Ghana to address the sustainability of the pay policy include:*

- *Institutional arrangements to deal with all compensation issues;*
- *Weaning off Subvented Agencies from Government Payroll*
- *Public Service-wide Performance Management System;*
- *Use of Internally Generated Funds;*
- *Human Resource Management Policy;*
- *Payroll Audit and Upgrade;*
- *Electronic Salary Payment Vouchers and Pay Slips.*

*Government will also consider renegotiating existing stability agreements with exporters to ensure that all retention accounts are maintained with domestic banks as pertains in other countries such as Angola, Guinea, and Nigeria among others.*

<b>Goal 2. Strengthen Financial Sector Regulation and Supervision</b>	
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**Key Indicators**

- Banks meeting standard provisions of safety and soundness (C11)
- Regulatory quality of National Pensions Regulatory Authority (C12)<sup>2</sup>
- Percent of total regulatory staff trained (C13)

*Out of the 7 banks not meeting criteria, 5 are rated above average risk and 2 rated high risk. US Treasury Experts under OTA arrangements are to support Bank of Ghana to draft bank resolution framework.*

*NPRA has signed an institutional support agreement with SECO to be implemented over three years. Support will focus on preparation of a strategic plan, capacity building and logistics.*

<b>Goal 3. Develop the Financial Sector Infrastructure</b>	
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**Key Indicators**

- Deposit mobilization (C14A-B)
- Usage rate of e-Zwich payment system (C15)
- Credit bureau utilization rate (C16)
- Private credit bureau coverage (C17)
- Registrations on collateral registry (C18)

*There have been significant improvements under this goal where all targets have been exceeded except the usage rate of the e-Zwich payment system. This is as a result of decline in sales due to inadequate Point of Sale devices. Measures being taken include fast tracking the disbursement of KFW soft loan to purchase more POS devices. Drafting of deposit insurance legislation is ongoing and possible amendments of the Collateral Registry Act to make it more effective.*

<b>Goal 4. Broaden and Deepen the Financial Sector</b>	
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**Key Indicators**

- Secondary market growth (C19A-B)
- Securities investment on the Ghana Stock Exchange (C20A-B)
- Adherence to auction calendar (C21)
- Foreign Exchange Trades (C22A-B)

*There have been remarkable improvements under this goal.*

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<sup>2</sup> Metric to be defined



*Continued measures to be implemented under the 5 year Financial Sector Strategic Plan for the domestic sector to be the preferred source of finance, diversify the domestic financial sector within a competitive environment, implement the recommendations of the corporate bond market development and to support financial literacy programs.*

<b>Goal 5. Encourage Development Finance and Support SME Access to Finance</b>	
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**Key Indicators**

- Private credit to SMEs, number and value (C23A-B)
- SMEs credit from Development Finance Institutions (C24)
- Non-performing loans in rural and community banks (C25)
- Volume of credit extended by rural banks (C26)
- SMEs on Stock Exchange (C27A-B)
- Number of SME employees (C28A-B)

*Behind schedule under this goal though there was a 22% increase in the volume of credit extended by the rural banks to the private sector.*

*There are on-going measures such as the Ghana Stock Exchange Alternative Exchange (GAX) developed to support SMEs to raise funds under a different tier and requirements.*

*Secondly, the establishment of SME task force to review the mandate of NBSSI to become the Apex body for a comprehensive and integrated SME support system in Ghana. Financial institutions supporting SMEs will play collaborative roles. This and TA support from Small Business Administration (SBA) will help facilitate a survey to collect SME data etc.*